

109TH CONGRESS
1ST SESSION

S. 1253

To amend the Internal Revenue Code of 1986 to allow a credit to holders of qualified bonds issued to finance certain rural development projects, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JUNE 15, 2005

Mr. COLEMAN (for himself, Mr. PRYOR, Mr. DEWINE, Mr. GRAHAM, and Mr. NELSON of Florida) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to allow a credit to holders of qualified bonds issued to finance certain rural development projects, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Rural Renaissance Act II of 2005”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
 2 shall be considered to be made to a section or other provi-
 3 sion of the Internal Revenue Code of 1986.

4 **SEC. 2. CREDIT TO HOLDERS OF RURAL RENAISSANCE**
 5 **BONDS.**

6 (a) IN GENERAL.—Part IV of subchapter A of chap-
 7 ter 1 (relating to credits against tax) is amended by add-
 8 ing at the end the following new subpart:

9 **“Subpart H—Nonrefundable Credit to Holders of**
 10 **Rural Renaissance Bonds**

“Sec. 54. Credit to holders of rural renaissance bonds.

11 **“SEC. 54. CREDIT TO HOLDERS OF RURAL RENAISSANCE**
 12 **BONDS.**

13 “(a) ALLOWANCE OF CREDIT.—In the case of a tax-
 14 payer who holds a rural renaissance bond on a credit al-
 15 lowance date of such bond, which occurs during the tax-
 16 able year, there shall be allowed as a credit against the
 17 tax imposed by this chapter for such taxable year an
 18 amount equal to the sum of the credits determined under
 19 subsection (b) with respect to credit allowance dates dur-
 20 ing such year on which the taxpayer holds such bond.

21 “(b) AMOUNT OF CREDIT.—

22 “(1) IN GENERAL.—The amount of the credit
 23 determined under this subsection with respect to any
 24 credit allowance date for a rural renaissance bond is

1 25 percent of the annual credit determined with re-
2 spect to such bond.

3 “(2) ANNUAL CREDIT.—The annual credit de-
4 termined with respect to any rural renaissance bond
5 is the product of—

6 “(A) the credit rate determined by the Sec-
7 retary under paragraph (3) for the day on
8 which such bond was sold, multiplied by

9 “(B) the outstanding face amount of the
10 bond.

11 “(3) DETERMINATION.—For purposes of para-
12 graph (2), with respect to any rural renaissance
13 bond, the Secretary shall determine daily or caused
14 to be determined daily a credit rate which shall
15 apply to the first day on which there is a binding,
16 written contract for the sale or exchange of the
17 bond. The credit rate for any day is the credit rate
18 which the Secretary or the Secretary’s designee esti-
19 mates will permit the issuance of rural renaissance
20 bonds with a specified maturity or redemption date
21 without discount and without interest cost to the
22 qualified issuer.

23 “(4) CREDIT ALLOWANCE DATE.—For purposes
24 of this section, the term ‘credit allowance date’
25 means—

- 1 “(A) March 15,
 2 “(B) June 15,
 3 “(C) September 15, and
 4 “(D) December 15.

5 Such term also includes the last day on which the
 6 bond is outstanding.

7 “(5) SPECIAL RULE FOR ISSUANCE AND RE-
 8 DEMPTION.—In the case of a bond which is issued
 9 during the 3-month period ending on a credit allow-
 10 ance date, the amount of the credit determined
 11 under this subsection with respect to such credit al-
 12 lowance date shall be a ratable portion of the credit
 13 otherwise determined based on the portion of the 3-
 14 month period during which the bond is outstanding.
 15 A similar rule shall apply when the bond is redeemed
 16 or matures.

17 “(c) LIMITATION BASED ON AMOUNT OF TAX.—

18 “(1) IN GENERAL.—The credit allowed under
 19 subsection (a) for any taxable year shall not exceed
 20 the excess of—

21 “(A) the sum of the regular tax liability
 22 (as defined in section 26(b)) plus the tax im-
 23 posed by section 55, over

1 “(B) the sum of the credits allowable
2 under this part (other than subpart C thereof,
3 relating to refundable credits).

4 “(2) CARRYOVER OF UNUSED CREDIT.—If the
5 credit allowable under subsection (a) exceeds the
6 limitation imposed by paragraph (1) for such taxable
7 year, such excess shall be carried to the succeeding
8 taxable year and added to the credit allowable under
9 subsection (a) for such taxable year.

10 “(d) RURAL RENAISSANCE BOND.—For purposes of
11 this section—

12 “(1) IN GENERAL.—The term ‘rural renaiss-
13 sance bond’ means any bond issued as part of an
14 issue if—

15 “(A) the bond is issued by a qualified
16 issuer,

17 “(B) 95 percent or more of the proceeds
18 from the sale of such issue are to be used for
19 capital expenditures incurred for 1 or more
20 qualified projects,

21 “(C) the qualified issuer designates such
22 bond for purposes of this section and the bond
23 is in registered form, and

24 “(D) the issue meets the requirements of
25 subsections (e) and (g).

1 “(2) QUALIFIED PROJECT; SPECIAL USE
2 RULES.—

3 “(A) IN GENERAL.—The term ‘qualified
4 project’ means 1 or more projects described in
5 subparagraph (B) located in a rural area.

6 “(B) PROJECTS DESCRIBED.—A project
7 described in this subparagraph is—

8 “(i) a water or waste treatment
9 project,

10 “(ii) an affordable housing project,

11 “(iii) a community facility project, in-
12 cluding hospitals, fire and police stations,
13 and nursing and assisted-living facilities,

14 “(iv) a value-added agriculture or re-
15 newable energy facility project for agricul-
16 tural producers or farmer-owned entities,
17 including any project to promote the pro-
18 duction, processing, or retail sale of eth-
19 anol (including fuel at least 85 percent of
20 the volume of which consists of ethanol),
21 biodiesel, animal waste, biomass, raw com-
22 modities, or wind as a fuel,

23 “(v) a distance learning or telemedi-
24 cine project,

“(vi) a rural utility infrastructure project, including any electric or telephone system,

“(vii) a project to expand broadband technology,

“(viii) a rural teleworks project, and

“(ix) any project described in any preceding clause carried out by the Delta Regional Authority.

“(C) SPECIAL RULES.—For purposes of this paragraph—

“(i) any project described in subparagraph (B)(iv) for a farmer-owned entity may be considered a qualified project if such entity is located in a rural area, or in the case of a farmer-owned entity the headquarters of which are located in a nonrural area, if the project is located in a rural area, and

“(ii) any project for a farmer-owned entity which is a facility described in subparagraph (B)(iv) for agricultural producers may be considered a qualified project regardless of whether the facility is located in a rural or nonrural area.

1 “(3) SPECIAL USE RULES.—

2 “(A) REFINANCING RULES.—For purposes
3 of paragraph (1)(B), a qualified project may be
4 refinanced with proceeds of a rural renaissance
5 bond only if the indebtedness being refinanced
6 (including any obligation directly or indirectly
7 refinanced by such indebtedness) was originally
8 incurred after the date of the enactment of this
9 section.

10 “(B) TREATMENT OF CHANGES IN USE.—
11 For purposes of paragraph (1)(B), the proceeds
12 of an issue shall not be treated as used for a
13 qualified project to the extent that a borrower
14 takes any action within its control which causes
15 such proceeds not to be used for a qualified
16 project. The Secretary shall prescribe regula-
17 tions specifying remedial actions that may be
18 taken (including conditions to taking such re-
19 medial actions) to prevent an action described
20 in the preceding sentence from causing a bond
21 to fail to be a rural renaissance bond.

22 “(e) MATURITY LIMITATIONS.—

23 “(1) DURATION OF TERM.—A bond shall not be
24 treated as a rural renaissance bond if such bond is
25 issued as part of an issue and—

1 “(A) the average maturity of bonds issued
2 as a part of such issue, exceeds

3 “(B) 120 percent of the average reasonable
4 expected economic life of the facilities being fi-
5 nanced with the proceeds from the sale of such
6 issue.

7 “(2) DETERMINATION OF AVERAGES.—For pur-
8 poses of paragraph (1), the determination of aver-
9 ages of an issue and economic life of any facility
10 shall be determined in accordance with section
11 147(b).

12 “(3) RATABLE PRINCIPAL AMORTIZATION RE-
13 QUIRED.—A bond shall not be treated as a rural
14 renaissance bond unless it is part of an issue which
15 provides for an equal amount of principal to be paid
16 by the qualified issuer during each calendar year
17 that the issue is outstanding.

18 “(f) CREDIT INCLUDED IN GROSS INCOME.—Gross
19 income includes the amount of the credit allowed to the
20 taxpayer under this section (determined without regard to
21 subsection (c)) and the amount so included shall be treat-
22 ed as interest income.

23 “(g) SPECIAL RULES RELATING TO EXPENDI-
24 TURES.—

1 “(1) IN GENERAL.—An issue shall be treated as
2 meeting the requirements of this subsection if—

3 “(A) at least 95 percent of the proceeds
4 from the sale of the issue are to be spent for
5 1 or more qualified projects within the 5-year
6 period beginning on the date of issuance of the
7 rural renaissance bond,

8 “(B) a binding commitment with a third
9 party to spend at least 10 percent of the pro-
10 ceeds from the sale of the issue will be incurred
11 within the 6-month period beginning on the
12 date of issuance of the rural renaissance bond
13 or, in the case of a rural renaissance bond, the
14 proceeds of which are to be loaned to 2 or more
15 borrowers, such binding commitment will be in-
16 curred within the 6-month period beginning on
17 the date of the loan of such proceeds to a bor-
18 rower, and

19 “(C) such projects will be completed with
20 due diligence and the proceeds from the sale of
21 the issue will be spent with due diligence.

22 “(2) EXTENSION OF PERIOD.—Upon submis-
23 sion of a request prior to the expiration of the period
24 described in paragraph (1)(A), the Secretary may
25 extend such period if the qualified issuer establishes

1 that the failure to satisfy the 5-year requirement is
2 due to reasonable cause and the related projects will
3 continue to proceed with due diligence.

4 “(3) FAILURE TO SPEND REQUIRED AMOUNT
5 OF BOND PROCEEDS WITHIN 5 YEARS.—To the ex-
6 tent that less than 95 percent of the proceeds of
7 such issue are expended within such 5-year period
8 (and no extension has been obtained under para-
9 graph (2)), the qualified issuer shall redeem all of
10 the nonqualified bonds on the earliest call date sub-
11 sequent to the expiration of the 5-year period. If
12 such earliest call date is more than 90 days subse-
13 quent to the expiration of the 5-year period, the
14 qualified issuer shall establish a yield-restricted de-
15 feasance escrow within such 90 days to retire such
16 nonqualified bonds on the earlier of the date which
17 is 10 years after the issue date or the first call date.
18 For purposes of this paragraph, the term ‘non-
19 qualified bonds’ means the portion of the out-
20 standing bonds in an amount that, if the remaining
21 bonds were issued on the fifth anniversary of the
22 date of the issuance of the issue, at least 95 percent
23 of the proceeds of the remaining bonds would be
24 used to provide qualified projects.

25 “(h) SPECIAL RULES RELATING TO ARBITRAGE.—

1 “(1) IN GENERAL.—A bond which is part of an
 2 issue shall not be treated as a rural renaissance
 3 bond unless, with respect to the issue of which the
 4 bond is a part, the qualified issuer satisfies the arbi-
 5 trage rebate requirements of section 148 with re-
 6 spect to gross proceeds of the issue (other than any
 7 amounts applied in accordance with subsection (g)).
 8 For purposes of such requirements, yield over the
 9 term of an issue shall be determined under the prin-
 10 ciples of section 148 based on the qualified issuer’s
 11 payments of principal, interest (if any), and fees for
 12 qualified guarantees on such issue.

13 “(2) EXCEPTION.—Amounts on deposit in a
 14 bona fide debt service fund with regard to any rural
 15 renaissance bond are not subject to the arbitrage re-
 16 bate requirements of section 148.

17 “(i) QUALIFIED ISSUER.—For purposes of this sec-
 18 tion—

19 “(1) IN GENERAL.—The term ‘qualified issuer’
 20 means any not-for-profit cooperative lender which
 21 has as of the date of the enactment of this section
 22 received a guarantee under section 306 of the Rural
 23 Electrification Act and which meets the requirement
 24 of paragraph (2).

1 “(2) USER FEE REQUIREMENT.—The require-
2 ment of this paragraph is met if the issuer of any
3 rural renaissance bond makes grants for economic
4 and community development projects on a semi-an-
5 nual basis every year that such bond is outstanding
6 in an annual amount equal to $\frac{1}{2}$ of the rate on
7 United States Treasury bills of the same maturity
8 multiplied by the outstanding principal balance of
9 rural renaissance bonds issued by such issuer.

10 “(j) SPECIAL RULES RELATING TO POOL BONDS.—
11 No portion of a pooled financing bond may be allocable
12 to loan unless the borrower has entered into a written loan
13 commitment for such portion prior to the issue date of
14 such issue.

15 “(k) OTHER DEFINITIONS AND SPECIAL RULES.—
16 For purposes of this section—

17 “(1) BOND.—The term ‘bond’ includes any ob-
18 ligation.

19 “(2) POOLED FINANCING BOND.—The term
20 ‘pooled financing bond’ shall have the meaning given
21 such term by section 149(f)(4)(A).

22 “(3) RURAL AREA.—The term ‘rural area’
23 means any area other than—

24 “(A) a city or town which has a population
25 of greater than 50,000 inhabitants, or

1 “(B) the urbanized area contiguous and
2 adjacent to such a city or town.

3 “(4) PARTNERSHIP; S CORPORATION; AND
4 OTHER PASS-THRU ENTITIES.—Under regulations
5 prescribed by the Secretary, in the case of a partner-
6 ship, trust, S corporation, or other pass-thru entity,
7 rules similar to the rules of section 41(g) shall apply
8 with respect to the credit allowable under subsection
9 (a).

10 “(5) BONDS HELD BY REGULATED INVEST-
11 MENT COMPANIES.—If any rural renaissance bond is
12 held by a regulated investment company, the credit
13 determined under subsection (a) shall be allowed to
14 shareholders of such company under procedures pre-
15 scribed by the Secretary.

16 “(6) TREATMENT FOR ESTIMATED TAX PUR-
17 POSES.—Solely for purposes of sections 6654 and
18 6655, the credit allowed by this section to a tax-
19 payer by reason of holding a rural renaissance bond
20 on a credit allowance date shall be treated as if it
21 were a payment of estimated tax made by the tax-
22 payer on such date.

23 “(7) REPORTING.—Issuers of rural renaissance
24 bonds shall submit reports similar to the reports re-
25 quired under section 149(e).”.

1 (b) REPORTING.—Subsection (d) of section 6049 (re-
 2 lating to returns regarding payments of interest) is
 3 amended by adding at the end the following new para-
 4 graph:

5 “(8) REPORTING OF CREDIT ON RURAL RENAISSANCE BONDS.—
 6

7 “(A) IN GENERAL.—For purposes of sub-
 8 section (a), the term ‘interest’ includes amounts
 9 includible in gross income under section 54(f)
 10 and such amounts shall be treated as paid on
 11 the credit allowance date (as defined in section
 12 54(b)(4)).

13 “(B) REPORTING TO CORPORATIONS,
 14 ETC.—Except as otherwise provided in regula-
 15 tions, in the case of any interest described in
 16 subparagraph (A), subsection (b)(4) shall be
 17 applied without regard to subparagraphs (A),
 18 (H), (I), (J), (K), and (L)(i) of such subsection.

19 “(C) REGULATORY AUTHORITY.—The Sec-
 20 retary may prescribe such regulations as are
 21 necessary or appropriate to carry out the pur-
 22 poses of this paragraph, including regulations
 23 which require more frequent or more detailed
 24 reporting.”.

25 (c) CLERICAL AMENDMENTS.—

1 (1) The table of subparts for part IV of sub-
2 chapter A of chapter 1 is amended by adding at the
3 end the following new item:

“Subpart H. Nonrefundable credit to holders of rural renaissance bonds.”.

4 (2) Section 6401(b)(1) is amended by striking
5 “and G” and inserting “G, and H”.

6 (d) ISSUANCE OF REGULATIONS.—The Secretary of
7 Treasury shall issue regulations required under section 54
8 of the Internal Revenue Code of 1986 (as added by this
9 section) not later than 120 days after the date of the en-
10 actment of this Act.

11 (e) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to bonds issued after the date of
13 the enactment of this Act.

○